

KALAMAZOO LAKE SEWER AND WATER AUTHORITY

COUNTY OF ALLEGAN, MICHIGAN

FINANCIAL STATEMENTS

FEBRUARY 29, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Kalamazoo Lake Sewer and Water Authority	County Allegan
Audit Date 2/29/04	Opinion Date 4/7/04	Date Accountant Report Submitted to State: 7/15/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Ferris, Busscher & Zwiars, P.C.			
Street Address 675 E. 16th Street, Suite 100	City Holland	State MI	ZIP Code 49423
Accountant Signature <i>Debra W. Botman C.P.A.</i>		Date 7/15/04	

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KALAMAZOO LAKE SEWER AND WATER AUTHORITY

AUTHORITY BOARD

David Mocini

Phillip Quade

Robert Thomley

Mark Bekken

Dan Urquhart

April 7, 2004

Members of the Board
Kalamazoo Lake Sewer and
Water Authority
Saugatuck, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying general purpose financial statements of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan as of and for the year ended February 29, 2004, as listed in the index. These general purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan, as of February 29, 2004, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
COMBINED BALANCE SHEETS - ALL FUND TYPES
FEBRUARY 29, 2004

ASSETS

	<u>Enterprise Funds</u>		<u>Trust and Agency</u>	<u>Totals (Memorandum Only)</u>
	<u>Sewer Department</u>	<u>Water Department</u>		
CURRENT ASSETS				
Cash and investments				
Restricted	\$ 7,663	\$ 2,740	\$ -	\$ 10,403
Unrestricted	192,243	472,436	681,513	1,346,192
Customer receivables	20,227	17,020	2,566	39,813
Prepaid payroll taxes	441	-	-	441
Prepaid insurance	151	164	-	315
Sewer connection contracts receivable	-	-	33,915	33,915
Water connection contracts receivable	-	-	27,257	27,257
Due from sewer department	-	26,806	540	27,346
Due from other governments	272	-	-	272
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL CURRENT ASSETS	\$ 220,997	\$ 519,166	\$ 745,791	\$ 1,485,954
PROPERTY, PLANT AND EQUIPMENT				
Buildings, plant and improvements	\$ 3,484,635	\$ 25,822	\$ -	\$ 3,510,457
Lift stations	1,292,541	-	-	1,292,541
Mains and connections	4,402,180	86,226	-	4,488,406
Meters	8,929	35,082	-	44,011
Machinery and equipment	277,474	146,591	-	424,065
Office equipment and furnishings	50,993	24,402	-	75,395
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 9,516,752	\$ 318,123	\$ -	\$ 9,834,875
Less accumulated depreciation	5,487,386	196,778	-	5,684,164
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 4,029,366	\$ 121,345	\$ -	\$ 4,150,711
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 4,250,363	\$ 640,511	\$ 745,791	\$ 5,636,665

See notes to financial statements

LIABILITIES AND FUND EQUITY

	<u>Enterprise Funds</u>		<u>Trust and Agency</u>	<u>Totals (Memorandum Only)</u>
	<u>Sewer Department</u>	<u>Water Department</u>		
CURRENT LIABILITIES				
Accounts payable	\$ 5,724	\$ 3,958	\$ -	\$ 9,682
Accrued liabilities				
Wages	19,662	19,662	-	39,324
Payroll taxes	125	125	-	250
Retirement contribution	777	777	-	1,554
Due to water department	26,806	-	-	26,806
Due to County	-	-	7,249	7,249
Due to other governments	-	-	738,542	738,542
Due to trust and agency fund	540	-	-	540
	<u>540</u>	<u>-</u>	<u>-</u>	<u>540</u>
 TOTAL CURRENT LIABILITIES	 \$ 53,634	 \$ 24,522	 \$ 745,791	 \$ 823,947
FUND EQUITY				
Contributed capital	\$ 6,943,469	\$ -	\$ -	\$ 6,943,469
Less accumulated amortization	<u>3,971,996</u>	<u>-</u>	<u>-</u>	<u>3,971,996</u>
Total contributed capital	<u>\$ 2,971,473</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,971,473</u>
Retained earnings				
Designated	\$ 7,663	\$ 2,740	\$ -	\$ 10,403
Undesignated	<u>1,217,593</u>	<u>613,249</u>	<u>-</u>	<u>1,830,842</u>
Total retained earnings	<u>\$ 1,225,256</u>	<u>\$ 615,989</u>	<u>\$ -</u>	<u>\$ 1,841,245</u>
TOTAL FUND EQUITY	<u>\$ 4,196,729</u>	<u>\$ 615,989</u>	<u>\$ -</u>	<u>\$ 4,812,718</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 4,250,363</u>	 <u>\$ 640,511</u>	 <u>\$ 745,791</u>	 <u>\$ 5,636,665</u>

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
ENTERPRISE FUNDS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
YEAR ENDED FEBRUARY 29, 2004

	Sewer <u>Department</u>	Water <u>Department</u>	Totals (Memorandum <u>Only</u>)
REVENUES			
Charges for services	\$ 362,058	\$ 383,007	\$ 745,065
Licenses and permits	190	-	190
Rentals	<u>-</u>	<u>60</u>	<u>60</u>
 TOTAL REVENUES	 <u>\$ 362,248</u>	 <u>\$ 383,067</u>	 <u>\$ 745,315</u>
OPERATING EXPENSES			
Salaries and wages	\$ 147,119	\$ 142,986	\$ 290,105
Fringe benefits	51,652	50,969	102,621
Education and dues	231	666	897
Office supplies and expenses	4,108	3,760	7,868
Legal and accounting fees	3,612	3,593	7,205
Authority board	550	550	1,100
Equipment maintenance	5,163	3,327	8,490
Insurance	14,007	17,673	31,680
Utilities	58,973	63,928	122,901
Treatment supplies and expenses	4,728	402	5,130
Engineering fees	5,870	535	6,405
Outside services, general	550	2,924	3,474
Outside services, laboratory	2,457	5,228	7,685
System repairs and maintenance	14,117	35,489	49,606
Billing expenses	1,016	1,002	2,018
Vehicle expense, fuel	5,187	4,102	9,289
Vehicle expense, maintenance	3,213	5,761	8,974
Chemicals	12,953	6,003	18,956
Building supplies and maintenance	2,794	3,086	5,880
Meter purchases	11,773	2,591	14,364
Small tools	4,866	10,152	15,018
Miscellaneous	<u>915</u>	<u>7,013</u>	<u>7,928</u>
 TOTAL OPERATING EXPENSES	 <u>\$ 355,854</u>	 <u>\$ 371,740</u>	 <u>\$ 727,594</u>

See notes to financial statements

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
ENTERPRISE FUNDS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES (CONTINUED)
YEAR ENDED FEBRUARY 29, 2004

	Sewer Department	Water Department	Totals (Memorandum Only)
OPERATING INCOME BEFORE DEPRECIATION	\$ 6,394	\$ 11,327	\$ 17,721
DEPRECIATION	<u>259,733</u>	<u>26,448</u>	<u>286,181</u>
OPERATING LOSS	\$ <u>(253,339)</u>	\$ <u>(15,121)</u>	\$ <u>(268,460)</u>
OTHER INCOME			
Gain (loss) on disposal of fixed assets	\$ (2,904)	\$ 1,296	\$ (1,608)
Interest income	<u>2,038</u>	<u>2,300</u>	<u>4,338</u>
TOTAL OTHER INCOME	\$ <u>(866)</u>	\$ <u>3,596</u>	\$ <u>2,730</u>
NET LOSS	\$ <u>(254,205)</u>	\$ <u>(11,525)</u>	\$ <u>(265,730)</u>
DISPOSITION OF NET LOSS			
Net loss	\$ (254,205)	\$ (11,525)	\$ (265,730)
Add credit arising from transfers of depreciation to contributed capital account	<u>180,436</u>	<u>-</u>	<u>180,436</u>
LOSS TRANSFERRED TO RETAINED EARNINGS	\$ (73,769)	\$ (11,525)	\$ (85,294)
RETAINED EARNINGS, MARCH 1, 2003	<u>1,299,025</u>	<u>627,514</u>	<u>1,926,539</u>
RETAINED EARNINGS, FEBRUARY 29, 2004	\$ <u>1,225,256</u>	\$ <u>615,989</u>	\$ <u>1,841,245</u>

See notes to financial statements

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
ENTERPRISE FUNDS
COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED FEBRUARY 29, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss	\$ (265,730)
Noncash item included in net loss	
Depreciation	286,181
Loss on disposal of fixed assets	1,608
Change in operating assets and liabilities	
Increase in receivables and prepaid expenses	(15,465)
Increase in accounts payable and accrued liabilities	<u>30,947</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 37,541

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Gross proceeds from sale of fixed asset	\$ 3,600
Purchase of property, plant and equipment	
Lift stations	(9,727)
Machinery and equipment	(138,386)
Office equipment and furnishings	<u>(2,494)</u>

NET CASH USED BY CAPITAL AND RELATED
FINANCING ACTIVITIES \$ (147,007)

NET DECREASE IN CASH \$ (109,466)

CASH AND CASH EQUIVALENTS BALANCE - MARCH 1, 2003 784,548

CASH AND CASH EQUIVALENTS BALANCE - FEBRUARY 29, 2004 \$ 675,082

ENTERPRISE FUNDS

Sewer Department	
Restricted cash and cash equivalents	\$ 7,663
Unrestricted cash and cash equivalents	192,243
Water Department	
Restricted cash and cash equivalents	2,740
Unrestricted cash and cash equivalents	<u>472,436</u>

TOTAL CASH AND CASH EQUIVALENTS \$ 675,082

See notes to financial statements

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kalamazoo Lake Sewer and Water Authority (Authority) complies with Generally Accepted Accounting Principles (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the more significant accounting policies:

A. REPORTING ENTITY

The Kalamazoo Lake Sewer and Water Authority is a joint venture of the Village of Douglas and City of Saugatuck, created under the provisions of Act 233, Public Acts of Michigan, 1955, as amended. The Authority was formed to operate, maintain, administer, and manage the water and sewage disposal systems. The Authority grants credit to its residential, commercial and industrial customers located within the Village of Douglas, City of Saugatuck and Saugatuck Township.

B. FUNDS

The accounts of the Authority are organized into funds, each of which is considered to be a separate accounting entity. The major fund categories are:

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheet. Proprietary fund equity is segregated into contributed capital and retained earnings. The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs of providing water and sewer services to the general public on a continuing basis are financed through user charges.

Fiduciary Funds

Fiduciary funds account for assets held by the Authority in a trustee or agency capacity. Agency funds are custodial in nature and do not involve measurement of results of operations.

C. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Accrual Basis of Accounting

The accrual basis of accounting is used in proprietary funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred.

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF ACCOUNTING (Continued)

Modified Accrual Basis of Accounting

The modified accrual basis of accounting is used in the trust and agency funds. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” “Measurable” means the amount can be determined and “available” means collectable within the current period or soon enough thereafter to pay current liabilities. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported as expenditures in the year due.

D. CUSTOMER RECEIVABLES

Customer receivables are carried at their net realizable value. The Authority rarely has uncollectible accounts because of its ability to collect overdue balances with a property tax levy. Accordingly, the Authority has not recorded an allowance for doubtful accounts.

E. FIXED ASSETS AND DEPRECIATION

Property, plant and equipment of the proprietary funds are recorded at historical cost. Proprietary fund fixed assets are recorded in the respective funds and depreciated using the straight-line method based on the estimated useful lives of the respective assets. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings, plant and improvements	10-40
Lift stations	40
Mains and connections	40
Meters	7-10
Machinery and equipment	5-10
Office equipment and furnishings	3-10

Depreciation expense for the year ended February 29, 2004 is \$286,181.

F. CONTRIBUTED CAPITAL

The Authority follows the policy of reducing contributed capital in the enterprise funds for an amount equal to the yearly depreciation on assets acquired or constructed with such contributions. This policy is based on the premise that future replacement of these facilities will be funded by the users who benefit from the facilities and not by current users through the current rate structure.

G. COMPENSATED ABSENCES

All employees are granted paid time off in varying amounts depending on length of service. Employees may accumulate a maximum of 360 hours of paid time off. In the event of termination, an employee is reimbursed for any unused accumulated paid time off at 100% of their current base rate.

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At the election of the employee, paid time off hours may be converted to their cashable sick leave account (CSLA). Hours accumulated in the CSLA are to be used for short term disability, care of an infirm parent, or any other medical emergencies. Employees may accumulate a maximum of 360 CSLA hours. In the event of termination, an employee is reimbursed for any unused accumulated CSLA hours at 50% of their current base rate.

The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund.

H. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents are defined as demand deposits, savings accounts and investments in a short-term investment fund for local units of government.

I. TOTAL COLUMNS

Total columns on the combined statements are captioned "memorandum only" to indicate that they are presented only to aid in financial analysis. Interfund eliminations have not been made in the aggregation of this data; and it is, therefore, not comparable to a consolidation.

J. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimated.

NOTE 2 – CASH AND INVESTMENTS

The Authority maintains its deposits and investments at Michigan depository institutions.

The Authority's investment policies are governed by State of Michigan statutes, formal board policy and administrative procedures. Permissible investments include Michigan financial institution certificates of deposit, certain investment funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan, and bonds and other direct obligations of the United States Government. The term of investments and financial institutions used for investment purposes are determined based upon the Authority's needs.

At February 29, 2004, the carrying amount of the Authority's deposits was \$1,356,595 and the bank balance was \$1,369,983. The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority at February 29, 2004. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the entity or by its agent in the entity's name.

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 – Uncollateralized.

Deposits, categorized by level of risk, are:

<u>Category</u>	<u>Amount</u>
1	\$ 200,000
2	-
3	<u>1,169,983</u>
Total Bank Balance	<u>\$1,369,983</u>

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

A breakdown of property, plant and equipment with related accumulated depreciation is as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
SEWER DEPARTMENT			
Buildings, plant and improvements	\$ 3,484,635	\$ 1,903,166	\$ 1,581,469
Lift stations	1,292,541	749,781	542,760
Mains and connections	4,402,180	2,629,262	1,772,918
Meters	8,929	8,929	-
Machinery and equipment	277,474	147,357	130,117
Office equipment and furnishings	<u>50,993</u>	<u>48,891</u>	<u>2,102</u>
TOTALS	<u>\$ 9,516,752</u>	<u>\$ 5,487,386</u>	<u>\$ 4,029,366</u>
WATER DEPARTMENT			
Buildings, plant and improvements	\$ 25,822	\$ 13,594	\$ 12,228
Mains and connections	86,226	40,482	45,744
Meters	35,082	35,082	-
Machinery and equipment	146,591	85,263	61,328
Office equipment and furnishings	<u>24,402</u>	<u>22,357</u>	<u>2,045</u>
TOTALS	<u>\$ 318,123</u>	<u>\$ 196,778</u>	<u>\$ 121,345</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>\$ 9,834,875</u>	<u>\$ 5,684,164</u>	<u>\$ 4,150,711</u>

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

NOTE 4 – SCHEDULE OF CHANGES IN CONTRIBUTED CAPITAL

Changes in contributed capital for the year ended February 29, 2004, consist of the following:

	<u>Sewer Department</u>
Contributed Capital	
Balance, February 28, 2003	\$ 6,943,469
Less Accumulated Amortization	
Balance, March 1, 2003	\$ 3,791,560
Add current year amortization	<u>180,436</u>
Balance, February 29, 2004	\$ 3,971,996
Contributed Capital, Net of Amortization	<u>\$ 2,971,473</u>

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Water Enterprise Fund	\$26,806	Sewer Enterprise Fund	<u>\$27,346</u>
Trust and Agency	<u>540</u>		
Total	<u>\$27,346</u>	Total	<u>\$27,346</u>

NOTE 6 – TRUST AND AGENCY FUNDS

The Authority is acting as a transfer agent for two general obligation bond issuances. The \$2,150,000 sewage disposal system bonds are due in annual installments of \$10,000 to \$125,000 through May 1, 2005; interest at 5.00% to 7.00%. The \$925,000 sewage disposal system bonds are due in annual installments of \$25,000 to \$75,000 through October 1, 2014; interest at 4.20% to 5.60%. The Authority has the following balances in the debt service funds with Allegan County as of February 29, 2004:

<u>Original Bond Issuance Amount</u>	<u>Amount in Debt Service Fund with Allegan County</u>
\$2,150,000	\$ 101
925,000	359

Schedules of bonds issued, redeemed and outstanding are on pages 16-17.

The Authority is also collecting connection fees for the City of Saugatuck and the Village of Douglas by agreement. In addition, the Authority collects debt service fees for the Village of Douglas and Saugatuck Township. These funds are held by the Authority until the local governments request the funds.

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

NOTE 7 – DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

The Authority's defined benefit pension plan, which consists of participation in the Municipal Employees' Retirement System of Michigan, provides retirement, disability and death benefits to plan members and beneficiaries. The Municipal Employees' Retirement System of Michigan ("System") is an agent multiple-employer pension plan administered by the Retirement Board of the Municipal Employees' Retirement System of Michigan. The authority to establish and amend the benefit provisions of the plan rests with the System's Retirement Board; the provisions of the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220; and the System's plan document. The Authority adopts its specific benefit provision. The System issues a publicly available financial report that includes financial statements and required supplemental information for the Municipal Employees' Retirement System of Michigan. That report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling 1-800-767-6377.

The Authority's plan members do not contribute to the System. The Authority is required to contribute at an actuarially determined rate. The required contribution for the period March 1, 2003 through February 29, 2004 was based on the annual actuarial valuation as of December 31, 2001. The net rate used was 7.46% of a projected annual covered payroll. The contribution requirements of plan members are selected by the Authority. The contribution requirements of the Authority are established and may be amended by the System's Retirement Board, yet the Authority selects its specific benefit provision.

ANNUAL PENSION COST

For the year ended February 29, 2004, the Authority's annual pension cost of \$21,645 for participation in the System was equal to the Authority's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age normal cost method. This funding method has been used since the December 31, 1993 valuation. Prior to then, the attained age normal cost method had been in effect. The actuarial assumptions used in the December 31, 2002 valuation included a long-term net investment yield rate of 8% and projected annual salary increases of 4.5%, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases ranging from 0% to 4.16%. The actuarial value of the Authority's plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis which remains stable at 30 years.

The following is a schedule of funding progress relating to the Authority's participation in the System:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability-Entry Age Normal Cost Method	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/98	\$364,267	\$412,592	\$ 48,325	88%	\$208,723	23%
12/31/99	412,090	444,585	32,495	93	236,704	14
12/31/00	449,692	495,880	46,188	91	243,644	19
12/31/01	481,059	557,631	76,572	86	248,598	31
12/31/02	498,895	626,993	128,098	80	280,479	46

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

The following is a schedule of annual pension cost and net pension obligation relating to the Authority's participation in the System:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation</u>
02/29/00	\$12,426	100%	\$ -
02/28/01	16,088	100	-
02/28/02	15,945	100	-
02/28/03	19,438	100	-
02/29/04	21,645	100	-

The following is an analysis of the unfunded actuarial accrued liability of the Authority at December 31, 2002:

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$ 162,447
Terminated employees not yet receiving benefits	58,772
Current employees – Accumulated employee contributions including allocated investment income	-
Employer financed	<u>405,774</u>
Total Actuarial Accrued Liability	\$ 626,993
Net Assets Available for Benefits at Actuarial Value (Market Value is \$396,435)	<u>498,895</u>
Unfunded Actuarial Accrued Liability	<u>\$ 128,098</u>

NOTE 8 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees.

The Authority participates in the Michigan Municipal Workers' Compensation Fund. This fund consists of a group program of workers' compensation self insurance for Michigan Municipalities. The Authority pays premiums based on estimated payroll for the policy period and is subject to an audit of actual payroll paid during the policy period to determine if additional premiums are due or a refund is warranted.

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2004

NOTE 8 – RISK MANAGEMENT (CONTINUED)

The Authority purchases commercial insurance for general liability, property coverage and medical benefits.

Settled claims for insurance have not significantly exceeded the amount of coverage during the year ended February 29, 2004. During the year ended February 28, 2003, the Authority discontinued its liability insurance coverage for losses related to sewer back-ups. Management does not expect the additional exposure to result in material losses.

NOTE 9 – DESIGNATED RETAINED EARNINGS

The Board has designated a portion of retained earnings to be utilized for capital outlay. As of February 29, 2004 the designated portion of retained earnings consists of the following:

Sewer Department	\$ 7,663
Water Department	<u>2,740</u>
TOTAL DESIGNATED RETAINED EARNINGS	<u>\$ 10,403</u>

ADDITIONAL INFORMATION

April 7, 2004

Members of the Board
Kalamazoo Lake Sewer and
Water Authority
Saugatuck, Michigan

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

We have audited the general purpose financial statements of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan for the year ended February 29, 2004. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the index is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Ferris, Busscher & Zwiars, P.C.

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KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN
TRUST AND AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FEBRUARY 29, 2004

	Balance March 1, <u>2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance February 29, <u>2004</u>
SEWER DEPARTMENT				
ASSETS				
Cash	\$ 401,258	\$ 207,984	\$ 294,860	\$ 314,382
Customer receivables	2,630	9,335	11,965	-
Connection contracts receivable	<u>44,537</u>	<u>4,510</u>	<u>15,132</u>	<u>33,915</u>
TOTAL ASSETS	<u>\$ 448,425</u>	<u>\$ 221,829</u>	<u>\$ 321,957</u>	<u>\$ 348,297</u>
LIABILITIES				
Due to water department	\$ 110,450	\$ -	\$ -	\$ 110,450
Due to County	-	143,575	143,575	-
Due to other governments	<u>337,975</u>	<u>51,156</u>	<u>151,284</u>	<u>237,847</u>
TOTAL LIABILITIES	<u>\$ 448,425</u>	<u>\$ 194,731</u>	<u>\$ 294,859</u>	<u>\$ 348,297</u>
WATER DEPARTMENT				
ASSETS				
Cash	\$ 340,238	\$ 399,501	\$ 372,608	\$ 367,131
Customer receivables	3,646	30,492	31,572	2,566
Connection contracts receivable	39,337	6,710	18,790	27,257
Due from sewer department	<u>110,990</u>	<u>-</u>	<u>-</u>	<u>110,990</u>
TOTAL ASSETS	<u>\$ 494,211</u>	<u>\$ 436,703</u>	<u>\$ 422,970</u>	<u>\$ 507,944</u>
LIABILITIES				
Due to County	\$ 7,249	\$ 311,250	\$ 311,250	\$ 7,249
Due to other governments	<u>486,962</u>	<u>75,091</u>	<u>61,358</u>	<u>500,695</u>
TOTAL LIABILITIES	<u>\$ 494,211</u>	<u>\$ 386,341</u>	<u>\$ 372,608</u>	<u>\$ 507,944</u>

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN
TRUST AND AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)
FEBRUARY 29, 2004

	Balance March 1, <u>2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance February 29, <u>2004</u>
TOTAL SEWER AND WATER				
ASSETS				
Cash	\$ 741,496	\$ 607,485	\$ 667,468	\$ 681,513
Customer receivables	6,276	39,827	43,537	2,566
Connection contracts receivable	83,874	11,220	33,922	61,172
Due from sewer department	<u>540</u>	<u>-</u>	<u>-</u>	<u>540</u>
TOTAL ASSETS	<u>\$ 832,186</u>	<u>\$ 658,532</u>	<u>\$ 744,927</u>	<u>\$ 745,791</u>
LIABILITIES				
Due to County	\$ 7,249	\$ 454,825	\$ 454,825	\$ 7,249
Due to other governments	<u>824,937</u>	<u>126,247</u>	<u>212,642</u>	<u>738,542</u>
TOTAL LIABILITIES	<u>\$ 832,186</u>	<u>\$ 581,072</u>	<u>\$ 667,467</u>	<u>\$ 745,791</u>

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF ALLEGAN COUNTY SEWAGE DISPOSAL SYSTEM
CITY OF SAUGATUCK AND VILLAGE OF DOUGLAS
BONDS ISSUED, REDEEMED AND OUTSTANDING
FEBRUARY 29, 2004

<u>Due May 1,</u>	<u>Interest Rate</u>	<u>Issued September 1, 1977</u>	<u>Redeemed</u>	<u>Outstanding February 29, 2004</u>
1979	7.00%	\$ 10,000	\$ 10,000	\$ -
1980	7.00	40,000	40,000	-
1981	7.00	50,000	50,000	-
1982	7.00	50,000	50,000	-
1983	7.00	50,000	50,000	-
1984	7.00	50,000	50,000	-
1985	6.25	75,000	75,000	-
1986	5.00	75,000	75,000	-
1987	5.00	75,000	75,000	-
1988	5.00	75,000	75,000	-
1989	5.00	75,000	75,000	-
1990	5.10	75,000	75,000	-
1991	5.20	75,000	75,000	-
1992	5.25	75,000	75,000	-
1993	5.30	75,000	75,000	-
1994	5.40	75,000	75,000	-
1995	5.50	75,000	75,000	-
1996	5.60	75,000	75,000	-
1997	5.65	100,000	100,000	-
1998	5.70	100,000	100,000	-
1999	5.70	100,000	100,000	-
2000	5.75	100,000	100,000	-
2001	5.75	100,000	100,000	-
2002	5.80	125,000	125,000	-
2003	5.80	125,000	125,000	-
2004	5.75	125,000	-	125,000
2005	5.75	<u>125,000</u>	<u>-</u>	<u>125,000</u>
TOTALS		<u>\$2,150,000</u>	<u>\$1,900,000</u>	<u>\$ 250,000</u>

Interest Dates: May 1 and November 1

Redemption prior to maturity:

Bonds are subject to redemption prior to maturity, at the option of the County and in such order as the County shall determine, on any interest payment date as follows:

101% of par on or after 5/1/00, but prior to maturity.

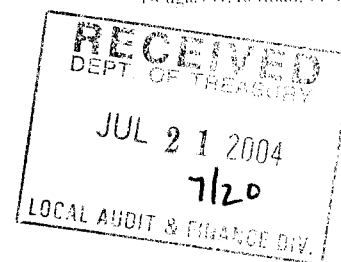
KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF ALLEGAN COUNTY SEWAGE DISPOSAL SYSTEM
CITY OF SAUGATUCK
BONDS ISSUED, REDEEMED AND OUTSTANDING
FEBRUARY 29, 2004

<u>Due</u> <u>October 1,</u>	<u>Interest</u> <u>Rate</u>	<u>Issued</u> <u>November 1,</u> <u>1995</u>	<u>Redeemed</u>	<u>Outstanding</u> <u>February 29,</u> <u>2004</u>
1996	4.20%	\$ 25,000	\$ 25,000	\$ -
1997	4.30	25,000	25,000	-
1998	4.40	25,000	25,000	-
1999	4.50	25,000	25,000	-
2000	4.60	25,000	25,000	-
2001	4.65	50,000	50,000	-
2002	4.75	50,000	50,000	-
2003	4.85	50,000	50,000	-
2004	4.90	50,000	-	50,000
2005	5.00	50,000	-	50,000
2006	5.10	50,000	-	50,000
2007	5.20	50,000	-	50,000
2008	5.20	50,000	-	50,000
2009	5.25	50,000	-	50,000
2010	5.30	50,000	-	50,000
2011	5.40	75,000	-	75,000
2012	5.50	75,000	-	75,000
2013	5.55	75,000	-	75,000
2014	5.60	<u>75,000</u>	<u>-</u>	<u>75,000</u>
TOTALS		<u>\$ 925,000</u>	<u>\$ 275,000</u>	<u>\$650,000</u>

Interest Dates: April 1 and October 1

Bonds are not subject to redemption prior to maturity.

April 7, 2004



Members of the Board
Kalamazoo Lake Sewer
and Water Authority
Saugatuck, Michigan

Board Members:

Thank you for the opportunity to be of service to you in performing an audit of the financial statements of Kalamazoo Lake Sewer and Water Authority for the year ended February 29, 2004. In planning and performing our audit we noted certain matters that we would like to bring to your attention.

New Financial Reporting Requirements

During 1999, the Governmental Accounting Standards Board issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34). This statement establishes new financial reporting requirements for state and local governments throughout the United States. The new requirements will be effective for the Authority's fiscal year ended February 28, 2005. Based on our preliminary analysis of the statement's impact on the Authority, we do not believe that any specific steps need to be taken until next year's audit. At that time, we will assist you in complying with the new reporting requirements.

Closing the CCM Fund

For a number of years, the Authority has used the CCM Funds as an accounting vehicle for recording certain capital acquisitions. In advance of the purchase, cash is transferred into the CCM Funds and offset with an entry to a transfer account. When the fixed asset is purchased, it is initially recorded in the CCM Fund. Then, at year-end, we record journal entries to reclass the fixed assets into their respective funds with offsetting entries through a transfer account. This leaves the accounting records in essentially the same place as if the sewer and water funds had purchased the fixed assets without ever using the CCM Funds. We recommend streamlining the process for these fixed asset acquisitions by eliminating the CCM Funds with a resolution from the Authority's Board of Directors. This will also serve to simplify the reporting process in advance of the new GASB 34 requirements.

Payroll Reimbursement Adjustments

Consistent with prior years, we noted that the amounts recorded in the various wage accounts did not agree with the gross wages shown on the payroll tax returns (Form 941). The differences generally related to employee reimbursements or other small adjustments affecting net pay. In order to facilitate monthly and year-end payroll reconciliations, we recommend that the Authority consider using separate general ledger accounts for any adjustments to gross wages. Depending upon the nature of the underlying transactions, these entries could be recorded in another expense account such as fringe benefits or uniform expense or could be accumulated in a miscellaneous reimbursement account. If requested, we would be happy to assist you in selecting the alternative accounts.

Settlements of Due To and Due From Accounts

In order to meet liquidity needs, cash has been transferred among the debt service funds. As a result, significant balances have accumulated in the Due To and Due From accounts. Included in these internal I.O.U. accounts are balances owed to and from Douglas and Saugatuck. As the municipalities' bonds are repaid, the Due To and Due From accounts will need to be reconciled with actual transfers of cash. Furthermore, the Authority should coordinate with the municipalities involved to ensure that all parties agree on which entities have the right to any residual assets or liabilities remaining in the debt service funds.

Computer Back-ups

Before our audit fieldwork began this year, the Authority's computer system crashed resulting in a temporary loss of data. Fortunately, most of the data was restored prior to the completion of our fieldwork. In order to prevent future (and potentially more severe) losses of data, we recommend that management reevaluate their back-up procedures to ensure that all data can be sufficiently recovered. If not doing so already, management should consider verifying the sufficiency of the data back-ups on a periodic basis, especially at year-end.

Accounts Payable Cut-Off

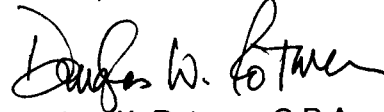
The Authority is currently entering invoices into the accounting system and recording expenses as cash is disbursed. In accordance with Generally Accepted Accounting Principles, expenses should be recorded in the period incurred, regardless of when actual cash payments are made. During the audit we reviewed the Authority's disbursements and proposed the necessary adjustments to convert the Authority's accounting records to an accrual basis. We recommend that the Authority investigate the possibility of entering invoices with the applicable service dates into the accounting system to record expenses in the proper period. In addition to improving audit efficiency, the accrual based expense reporting may yield more accurate interim financial information.

We would like to thank the Board for the opportunity to work with Kalamazoo Lake Sewer and Water Authority and look forward to serving you in the coming year. If you have any questions regarding your financial statements or the above recommendations, we would be pleased to discuss them with you.

This report is intended solely for the information and use of the Authority Board and management.

Sincerely,

FERRIS, BUSSCHER & ZWIERS, P.C.

A handwritten signature in black ink, appearing to read "Douglas W. Rotman". The signature is fluid and cursive, with the first name "Douglas" being more prominent.

Douglas W. Rotman, C.P.A.

DWR/kc